



# Insurance Institute of India

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## INSUNEWS

- Weekly e-Newsletter

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### • Quote for the Week •

**"Go as far as you can see; when you get there, you'll be able to see farther."**

**J. P. Morgan**

#### INSIDE THE ISSUE

### Insurance Industry

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#### ***Few takers for pension and life cover schemes by govt - smartinvestor.in - 29th November 2017***

The three — the Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY), Pradhan Mantri Suraksha Bima Yojana (PMSBY), and Atal Pension Yojana (APY) — were meant to provide insurance and pension to the economically weaker sections of society.

The schemes were aimed to give universal social security, especially to the unorganised sector. Notably, in November, the enrolment in the Jan Dhan Yojana was about 306 million. Against this, in the same month, the enrolment in the PMSBY was about 112 million, while that of the PMJJBY was about 35 million, according to the data with the government.

The enrolment under the APY was around 6 million till August 2017, according to a government press release. The government has now given banks specific targets for enrolment under the APY.

"Like private banks, we have now been given specific targets for enrolment in the APY. We are organising special camps for it. However, the problem is that people in general do not have an awareness about pension products," according to an executive of a public sector bank.

In general, the PMSBY has received a better response because of its low premium. The scheme provides risk coverage in the case of accidental death, and full or partial disability at Rs 2 lakh and Rs 1 lakh, respectively. The scheme has an annual premium of Rs 12, and open for people of the age 18-70. According to the government data, among the about 112 million enrolled, so far the government has settled claims for about 13,090 against 17,689 claims.

As regards the PMJJBY, the premium is slightly high compared to the PMSBY. It is open for people in the age group 18-50. The scheme provides a life cover of Rs 2 lakh, against an annual premium of Rs 330. As of November, against the enrolment of about 35 million, the government settled claims of about 76,096 applicants, against claims by about 82,828 individuals.

The Atal Pension Yojana is a pension scheme that offers a guaranteed rate of 8 per cent assured return for the subscribers and also the opportunity of higher earnings in case the rate of return is higher than 8 per cent at the time of maturity, after staying invested in the scheme for 20-42 years.

Under the APY, the subscribers would receive a fixed minimum pension of Rs 1,000-5,000 per month, depending on their contributions. "While people have been willing to spend as little as Rs 12 for an accident coverage scheme, not many are willing to purchase a scheme that requires a higher premium," said an executive of a public sector bank.

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#### ***India: Insurers are well positioned to benefit from strong domestic economic growth - Asia Insurance Review***

The latest regulatory reforms in India have improved the ability of Indian primary insurers to take advantage of the country's strong economic growth, a credit positive for the sector, says Moody's Investors Service in its first published report on the Indian insurance market.

"Regulations introduced since 2015 have facilitated the access of the insurers to capital and reinsurance cover, while encouraging them to improve the quality of their investment assets and reserve adequacy," said Mr Mohammed Ali Londe, a Moody's Assistant Vice President and Analyst.

"These developments will gradually allow Indian insurers to reap greater benefits from India's strong economic expansion and to increase take-up of insurance from current low levels," he said.

Moody's conclusions are contained in its report, "Insurance -- India, Developing regulatory landscape and strong economy supportive for insurers", released yesterday.

Moody's expects the non-life insurance sector to maintain its double-digit growth over the next 3-4 years, supported by the expectation that India's (Baa2, Stable) real GDP will expand by 6.7% in the fiscal year ending 31 March 2018. Furthermore, annual insurance premium penetration remains comparatively low in India at just 3.5% of GDP, and is likely to increase in line with household spending.

In the year to March 2017, the top 10 Indian non-life insurers reported 30% growth in gross written premiums to INR1,009.3 billion (US\$15.6 billion) whilst their top five life counterparts reported a 14% increase in GWP to INR3,740.8 billion.

Regulatory reforms are also improving the sector's access to capital. For example, in 2015, the IRDAI raised the maximum stake that foreign investors can hold in Indian insurers to 49% from 26%. The regulator has also made it easier for Indian insurers to launch initial public offerings (IPOs) and for state-owned insurers to privatise, leading to six IPOs over the past 14 months and a further three expected in 2018.

Moody's also says that reinsurance liberalisation will benefit the non-life sector. In 2017 the IRDAI admitted eight private reinsurers to the Indian market, which had previously been dominated by the state-owned General Insurance Corporation of India.

The arrival of major global reinsurers will improve Indian insurers' access to reinsurance, supporting their management of underwriting risk. This should also help gradually reverse a recent deterioration in the non-life sector's underwriting performance due to rising claims expenses. Moreover, asset quality and reserving will strengthen.

Regulatory risk-based capital (RBC) rules scheduled to take effect in the fiscal year ending March 2021 will encourage insurers to adopt eligibility criteria for their investment assets that will improve the quality of their investment portfolios.

Separate rules requiring insurers to adopt external actuarial reserving assessments, expected to take effect from March 2018, will likely increase reserving requirements for some in the short-term, putting their profitability under pressure. However, in the longer term, Moody's expect the actuarial reserving to strengthen reserve adequacy and improve pricing discipline, leading to stronger underwriting results.

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### ***India: Taskforce formed to revise tax law, with impact expected on insurers – Asia Insurance Review***

The government has formed a task force to draft a new direct tax legislation to rewrite the decades-old Income Tax Act, 1961. The changes are expected to affect taxation on insurance companies. The task force shall submit its report to the government within six months, said the Finance Ministry. However, sources said the recommendations of the task force would have to be examined in detail and are unlikely to take final shape before 2019, reported Hindu Business Line.

The new legislation will be drafted keeping in mind the direct tax system in other countries, international best practices and the economic needs of the country, a Finance Ministry statement said.

#### **Impact on insurers**

Kotak Institutional Equities said a revamp of the direct tax law would result in high taxes on insurers. "We see a higher tax impact (25% versus the current rate of 14.3%) and estimate 7-9% lower EV and RoEV for HDFC Life, ICICI Life and Max Life and a 13-17% decline in NBV margins," the brokerage said.

Previous attempts to overhaul direct taxes were not successful. In 2009, a tax Bill had suggested radical changes, including:

- Income from insurance for policyholders is to be considered under the EET method (exempt, exempt, taxed; that is, insurance income should be taxable) unless premium payable is less than 5% of the sum assured.
- Life insurance companies should pay income tax at corporate tax rates (proposed at 25%) as compared to the existing 14.3%.

### Source

However, the 2009 Bill has lapsed as the former government lacked the numbers in parliament to pass amendments.

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## IRDAI Regulation

*Uninsured depositors likely to get preference over other creditors - The Economic Times (Bangalore edition) - 1st December 2017*

A proposed Financial Resolution and Deposit Insurance Bill (FRDI), which is aimed at orderly resolution of bankruptcies in the financial services sector, includes a special high-risk deposit instrument, regulatory supervision by the finance ministry, and a bankruptcy framework that will envelope all financial institutions.

Just like the current bank deposit insurance scheme, deposits up to Rs 1 lakh would be insured but there is also a proposal for a new kind of high-yielding deposits which can be called whenever they are deemed critical, which can be referred to as a bail-in clause. These instruments would be last in the line for payments in case of liquidation.

“The bail-in provision relates to instruments specifically issued with a bail-in clause upfront with the specific understanding that these liabilities can be called up when the financial institutions are deemed critical,” said Usha Thorat, former deputy governor of the Reserve Bank of India. “This bill will also look to clarify some infirmities in the present scheme and provide uninsured depositors preference over other creditors. The resolution corporation will be under the finance ministry unlike the DICGC (Deposit Insurance and Credit Guarantee Corp) which is under the RBI.”

A separate law to wind down institutions in the financial services is in the works in line with global developments where many countries have evolved special laws post the collapse of Lehman Brothers in 2008 which roiled the global financial system.

While the Parliament has enacted a law for resolving other enterprises styled the Insolvency and Bankruptcy Code, the financial sector ones is still hanging fire.

### FinMin Supervision in FRDI Bill

The Bill is currently with a Parliamentary standing committee and there is no clarity on when the bill would wind its way to lawmakers for a vote. The Deposit Insurance Corporation and Credit Guarantee Corporation (DICGC), a wholly-owned subsidiary of the RBI, was formed in 1961. Banks have to mandatorily take deposit insurance which covers individual deposits up to Rs 1 lakh. The DICGC manages the Deposit Insurance Fund (DIF) which is made up of the premium received from insured banks and coupon received from investment in central government securities.

The deposit insurance scheme currently covers all banks, commercial, regional rural and co-operative banks. So far in 2017, more than Rs 28 crore was sanctioned from the insurance scheme to all co-operative banks according to information on the DICGC website.

“The present deposit insurance scheme will be subsumed by the new Bill, but the Rs 1 lakh deposit insurance amount will not change,” said Sandeep Parekh managing partner at Finsec Law Advisors. “To be precise, no commercial bank has been allowed to go down in India in the last 70 years and that implicit sovereign guarantee continues even with this new Bill.”

The bill proposes to establish a resolution corporation to monitor financial firms and oversee the liquidation, which was not the case in so far. The RBI which has been in charge of bank liquidations or resolutions will also no longer be in charge.

“Unlike the present scheme, which was only restricted to banks, the new Bill will cover resolution of all financial institutions. This Bill will also look to clarify some infirmities in the present scheme and provide uninsured depositors preference over other creditors,” Thorat said.

### Source

Neither the government nor the RBI or any other financial regulator has said by when this would become a law, or in what form.

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### *Irdai approves PE investment of over 10% in insurance firms - Financial Chronicle - 30th November 2017*

The insurance regulator Irdai would soon allow private equity (PE) players wanting to enter the sector as promoters. There will be a few conditionalities in the way such as a shareholding lock-in of five years, entry through a special purpose vehicle (SPV) and satisfying the Indian-owned and controlled guidelines of the insurance regulator.

Speaking to Financial Chronicle, a source explained, “There will be a five year lock-in for private equity players (cannot change their shareholding). The guidelines will be issued in a day or two. Private equity players wanting to come in as a promoter should use the SPV route and satisfy the Indian-owned and controlled guidelines set by Irdai, which states that the foreign investors should not have more than 49 per cent stake.”

Recently, a lot of PE players have picked up stakes in existing life and general insurance companies. However, the current norms do not allow them to own more than 10 per cent stake to become a promoter.

Most of the PE players are financial investors holding less than 10 per cent stake.

Narayan Murthy’s Catamaran Ventures-backed digital insurance company

Acko General Insurance is one such firm that received Irdai’s approval on September 18.

Religare Health Insurance Co sold nearly 80 per cent of its stake to a consortium of PE investors led by investment firm True North (formerly known as India Value Fund) in April.

Similarly, private equity funds managed by Apis Partners hold a minority stake in Star Health and Allied Insurance Co.

On the other hand, some PE players in existing insurance companies are looking at exiting. Set up in 2006, Chennai-based Star Health Insurance is considered the largest independent health insurer in India.

Investors in Star Health include ICICI Venture Fund Management, Sequoia Capital, Tata Capital Growth Fund, Alpha TC Holdings and Oman Insurance Co.

Besides the private equity investors, the promoter group also plans to exit the health insurer.

According to reports, Star Health and Allied Insurance has received as many as 12 bids from interested parties, including several private equity investors.

Investors who have submitted bids include homegrown PE fund Kedaara Capital Advisors LLP, PremjiInvest, the private investment arm of Wipro chairman Azim Premji, Singapore’s Temasek Holdings, Carlyle Group, Bain Capital LP and Warburg Pincus LLC.

Global PE funds already have a strong presence in the Indian insurance space. In May (before listing of ICICI Lombard), Red Bloom Investment, a company owned by private equity funds managed by Warburg Pincus LLC, had bought 9 per cent stake in ICICI Lombard General Insurance Co, a joint venture between ICICI Bank and Fairfax Financial Holdings for an amount of Rs 1,827 crore.

The stake sale valued the general insurance company at Rs 20,300 crore at that time. Similarly, private equity firms including Warburg Pincus and IIFL Special Fund had bought 12.18 per cent in ICICI Lombard General Insurance, when Fairfax sold a substantial stake to float another general insurance company.

In December 2016, US-based PE firm KKR & Co. and Singapore-based Temasek had bought a 3.9 per cent stake in SBI Life Insurance Co, subsidiary of State Bank of India (SBI), for close to Rs 1,794 crore.

A managing director and CEO of a private life insurer said, “A few general and health insurance companies have significant shareholding through private equity players. The new norms will allow easier exits to existing promoters. It will allow a new kind of firms to enter.

### Source

In the life insurance players there are several global players scouting for domestic partners and so they can join hands with interested PE players to launch a company. This may lead to more innovations in insurance space.”

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### *Irda caps insurers' payment to dealers - The Economic Times – 28th November 2017*

The motor insurance industry is undergoing a shakeup with the sector regulator bringing to an end the decades-old practice of general insurance companies paying commission under the table to automobile distributors for selling their policies.

Insurance Regulatory & Development Authority (Irda) has capped payments by insurers to agents and dealers at 19.5% for cars and 22.5% for two-wheelers and brought them under its purview as motor insurance service providers (MISPs) starting this month, a move that is expected to bring down claims ratio.

“The implementation is on way and we have to see the impact of that entire dealership comes under the regulatory supervision,” said an insurance company executive who requested not to be named.

“There were payouts happening in other forms, to dealers and to brokers, which has come down now to one commission to dealers.” These dealers were outside Irda’s regulation for so long.

With Irda’s regulations, they have been now structured and brought under the regulator’s ambit. They can choose to work with brokers or with insurance companies, but under the regulator’s supervision.

Insurers said the development will help the industry in better claims management and reducing expenses, which were paid earlier as outsourcing expenses.

“MISPs were outside the purview of regulation and the industry was paying them infrastructure or outsourcing expenses,” G Srinivasan, chairman at New India Assurance, had said earlier.

“We feel that this will help us in bringing down the claims ratio,” he had said after announcing second quarter results of the company. “Second, payments, which are made to dealers, which are little on a higher side and now reduced and standardised. So the outgo for the company will also come down,” Srinivasan said.



Motor is the largest segment of general insurance business. Combined ratio for motor insurance is above 100%, which means that the business is not making profit. Combined ratio is a measure of profitability used by an insurance company to indicate how well it is performing from operations. “Regulator recognises the extra work insurance broking channel has over other forms of intermediary and has allowed higher caps for brokers. It is strange and not fair that MISP would be put at par on remuneration cap with brokers,” said Sanjay Kedia, CEO, Marsh India.

### Source

## Life Insurance

### ***Investing in short-term debt funds a good idea now: Bismillah Chowdhary, Edelweiss Tokio Life - The Economic Times – 27th November 2017***

Every IPO needs to be studied thoroughly to gauge its quality of management and growth prospects which can sometimes justify high valuations, Bismillah Chowdhary tells ET Wealth.

#### **With Moody's upgrading India's rating, what is your advice for debt investors?**

Given indications of inflation shooting up, rising crude prices, risk of a populist Budget and a possible breach of fiscal target, we would not recommend investments in long duration fixed income securities. Instead, investor should opt for short duration credit funds because when yields go up, long duration strategy won't give returns on investments.

Investing in short duration credit funds through Ulips or mutual funds will be better. One should avoid fixed deposits as the rates offered by banks are the lowest in the past few years when compared with the spread over G-Secs or corporate bonds of similar maturity. Investing in tax-free bonds from the secondary market is also a good avenue for investors in the high tax bracket.

#### **Do you expect a rate cut in the December policy meet of the RBI?**

We don't expect a rate cut in December. The key reason is CPI, after touching 1.46% in June, has doubled to 3.58% in four months. RBI's projected inflation for the second half of 2017-18 is 4-4.5%. This means for the following four months they are implying inflation readings of 5 to 5.5%. By March, if we are in the range of 5 to 5.5% and given RBI's target of 4% inflation, it leaves very little room for RBI to cut rates.

#### **How is your product Edelweiss Tokio Life Wealth Plus different from other Ulips?**

Wealth Plus doesn't levy any premium allocation and policy administration charges, but instead contributes additional allocations/units on every premium paid by the customer. These additional allocations start at 1% and increases every five years to 3%, 5% and 7%. In this manner, it accelerates the process of wealth accumulation, while also offering protection to the policy buyers.

#### **What's your view on the current equity markets?**

We continue to remain structurally positive on the equity market in the medium to long-term. However, there could be some correction or consolidation in the short-term. The economic ecosystem of India has undergone an extreme overhaul at all levels in the last few years. Reforms such as Aadhaar, GST, Insolvency and Bankruptcy Code, demonetisation, bank recapitalisation and RERA can together put our economy on a faster, robust and more sustainable growth path. We believe that a strong foundation has been laid.

#### **With the current run-up in the market, should investors book some profits?**

One should never try to time the market. In fact, nobody has ever done this successfully and consistently over time. Large chunks of investment returns are made by right asset allocation and not timing. As our economy is on track to double in the next 4-6 years and triple in the next 7-9 years, the large chunk of the wealth that will get made will flow through equities. This process will speed up with the formalisation of the economy. Investors should look at equities for asset allocation and remain invested for the long-term.

#### **How will surging oil prices impact the economy and the equity market?**

Oil prices have gone up by 20% this financial year and 40% from the lowest seen in June. India is a clear loser when oil prices go up as oil constitutes a significant part of our import basket and has inelastic demand. Higher oil prices could delay economic recovery as it has implications for inflation, currency, current account and fiscal deficit. This can lead to some correction in the equity market.

#### **At current levels where are you deploying fresh inflows?**

We are deploying fresh inflows in our existing portfolio in accordance with the objective of the fund. We generally do not take cash calls. Our view is that in the next five to seven years we will get rewarded by staying invested. We manage our portfolio vis-à-vis the benchmark tightly, so a lot of fresh inflows is getting invested in stocks which have consistency of growth in earnings, are managed well, have made a niche for themselves and are sector leaders.

#### **What are the important parameters an investor needs to consider before investing in insurance stocks?**

Life insurance companies have a long gestation period of 7 to 12 years, depending on the individual

characteristics of the company. Insurance penetration is low in India and that offers strong growth potential. Private players are helping increase the size of market share. Strong cost control, diversified product mix and high persistency ratio help in expanding the margin.

Superior distribution channels, better underwriting business quality and superior investment return are the other significant factors which play major roles in the growth of a life insurance company and lead to better quality of earnings with respect to peers. General insurance companies with good underwriting capability and ability to generate superior investment return on float income will have an edge over peers.

#### **After poor listings of recent IPOs what do you recommend to investors?**

Recent poor IPO listings reflect that the market is pricing the fact that IPOs came at very rich valuations. The characteristics of the company and listing valuations make a lot of difference. Every IPO needs to be evaluated thoroughly for quality of management and growth prospects which can sometimes justify high valuation. Carry out due diligence before investing. It is healthy that markets have been punishing IPOs at high valuations.

Source

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#### ***Life insurance policy warning: 6 sins that may ruin family - Financial Express – 27th November 2017***

A few people buy life insurance, some are persuaded to buy life insurance and most have life insurance thrust upon them by an agent. When everything in life is going fine, life insurance hardly draws anyone's attention. The policyholder also rarely finds time to look at the conditions, benefits and the privileges under his policy. But insufficient life insurance cover and mismanagement of a life insurance contract can ruin the future of the dependents. Adequate life insurance alone serves the purpose of providing financial security to one's spouse or children. While buying a policy one should not look at the amount of premium only for taking the final decision.

#### **Living with inadequate life cover**

One should decide the amount of sum assured on the basis of future obligations to the family and explore with the plans and benefits that could be availed of for securing the family's future with the risk cover as decided first. Living with inadequate life cover is Sin No.1. This may ruin a family permanently and the spouse and children may find themselves in a sinking boat.

#### **Not paying premium on time**

Life insurance is valuable so long as the policyholder continues to pay due premium not later than the grace period. Normally, the policyholders wait for reminders from agents or the company. Not remembering the due date and not paying the premium on time is Sin No.2. A life insurance policy lapses if premium is not paid within the grace period. If unfortunately the policyholder dies when the policy is not in force, either nothing is payable to the family or only the paid up value is paid which is a very negligible amount during the early years of taking a policy. No bonus accrues to a lapsed policy and almost all the riders become inoperative.

#### **Not mentioning nominee's name**

Nomination under a policy is a must for smooth settlement of claim. If the spouse is not the nominee, the insurer will not be obliged to honour a claim by her or him in case of death of the policyholder. The claims in such situations are settled either through order of court or following completion of several time taking procedures. Dispute among rival claimants often ruin the dependents extensively. Not ensuring timely nomination or change of nominee following marriage or death of the first nominee is Sin No.3.

#### **Not careful in filing fresh nomination**

Life insurance policies grow into valuable assets and can be utilised for raising loan from any lender. The policy can be assigned to another individual or to any entity such as banks and housing finance companies for raising a loan. The policy is accepted as a collateral security. The policy can be assigned to another individual out of natural love and affection also. But when the policy is assigned, the original nomination gets cancelled. Hence, on reassignment the policyholder needs to execute fresh nomination, otherwise in case of death claim it will be treated as a claim without a formal nomination. Not being careful about filing fresh nomination is Sin No. 4.

#### **Not sharing policy information with spouse**

A responsible family member needs to share all information regarding life insurance policies held by him with his wife. Insurance is for the spouse and the children hence they should know number of policies and where the original documents are kept in the house or in the lockers.

Generally, spouses consider life insurance a sensitive subject and avoid talking about death claims between themselves. But not talking and sharing vital information with spouse is a blunder everybody tends to commit and this is Sin No. 5.

#### **Surrendering the policy**

Life insurers provide for an exit route by way of surrender of a policy if the policyholder is unable to pay the premium due to some financial crisis. Surrender of a policy normally provides reduced cash value against the policy. Surrender provides the policyholder cash in his own hand, hence on a slight pretext, very often some policyholders surrender their policies and deprive their family members, specially the spouse, of the invaluable life insurance cover and this is Sin No.6. As buying another policy is always costlier due to increased age, such policyholders permanently deny their family financial protection and expose them to huge risk if the unfortunate event occurs in their life.

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#### ***India: Life insurance stocks trade higher than peers in other Asian markets – Asia Insurance Review***

The share prices of Indian life insurance companies are significantly higher than those of their peers elsewhere in Asia, says Milliman India in its report.

Indian life insurance companies are trading at 3-5 times the multiple of embedded value, against 1-2 times in other Asian markets. China Life is trading at 0.88 times, Bangkok Life is at 1.06 times, Daiichi Life at 0.43 times and Samsung Life at 0.72 times, reported *The Economic Times* citing the Milliman India report.

Mr Sanket Kawatkar, principal and consulting actuary at Milliman India said that unless insurers are able to maintain future new business growth and profitability and not just VNB margin, but absolute growth of VNB, the high EV multiple currently enjoyed by insurers would not be sustained.

Three Indian life insurance companies ICICI Prudential, SBI Life, HDFC Life are directly listed whereas Max Life has an indirect listing through Max Financial Services.

The newly listed HDFC Life is trading at 5.3 times the embedded value while ICICI Prudential Life 3.15 times and SBI Life at 3.64 times. This is when the margins are lowest in India. To maintain this valuation, companies will have to grow new business income by 25-30% over the medium to long-term.

The report stated that product mix has been the key driver of profitability. Insurers have moved towards writing more protection that have high margins. However, increasing competition and customer education, the expectation of high distributor compensation are the key challenges in growing the protection business.

Source

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#### **Health Insurance**

#### ***Now get insurance just to protect your pearly whites - The Economic Times (Bangalore edition) – 1st December 2017***

Now, all your dental expenses may soon be covered under an insurance cover for the first time in India. Ocare founded by Neeraj Sheth, a dentist from Mumbai, has applied for a licence to float a dental insurance company. There are five standalone health insurance companies in India but none provide complete dental cover. This company may offer cosmetic dental surgeries apart from teeth extraction procedures and others.

“We are looking to start as a dental insurance company and expand into other healthcare insurance,” said Neeraj Sheth founder Ocare. “Today, only those procedures are covered, which requires domiciliary medical care.”

The dental service market is around Rs 12,000 crore. There is no insurance company offering dental insurance to individuals. Today, root canal costs Rs 1,500-8,000, teeth extraction up to Rs 800. Cosmetic dental surgery costs upwards of Rs 25,000 and is not covered under any group insurance policy. Reliance Health and Jiva Health have other standalone health insurance companies to float standalone companies.

Source

Health insurance is the fastest growing segment in the general insurance segment. It contributes 30% to the sector.

## General Insurance

### *Non-life insurers to maintain double digit growth: Moody's - The Hindu Business Line - 28th November 2017*

Moody's Investors Service today projected double digit growth for non-life insurance companies over the next 3-4 years as India's economic expansion would support premium growth.

Moody's recently upgraded India's sovereign rating to Baa2 and said it expects GDP to expand by 6.7 per cent in 2017-18 fiscal, making it one of the world's fastest-growing economies.

"Given India's projected economic expansion, we expect the non-life insurance sector to maintain its double digit growth over the next 3-4 years," it said.

Annual insurance premium penetration remains comparatively low in India at just 3.5 per cent of GDP, and is likely to increase in line with household spending.

In 2016-17 fiscal, the top 10 non-life insurers reported 30 per cent growth in gross premiums to Rs. 1 lakh crore, while the top five life insurers reported a 14 per cent increase in gross premiums to Rs. 3 lakh crore.

Moody's said regulatory reforms would improve access to capital.

In 2015, the Insurance Regulatory and Development Authority of India (IRDAI) raised the maximum stake that foreign investors can hold in Indian insurers to 49 per cent from 26 per cent.

The regulator also made it easier for Indian insurers to launch initial public offerings (IPOs) and for state-owned insurers to privatise.

This has led to the IPOs of four private and two state-owned insurers over the past 14 months. The IPOs of three more state-owned insurers (United India Insurance, National Insurance and The Oriental Insurance) are scheduled for 2018.

### Source

"The changes will help the government privatise its insurers, while allowing insurers to bolster their capital, improve their financial flexibility, and gain access to foreign expertise," Moody's said.

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### *Insurers have to make underwriting profits grow: SBI General's Mahapatra - Business Standard - 29th November 2017*

Among general insurance companies, SBI General has had a good run in the September quarter. Its net profit rose by a massive Rs 251 crore. Managing Director and Chief Executive Officer PUSHAN MAHAPATRA says there are plans for a public issue, but he is also careful to point out the risks for the insurance companies in rushing to the market. Excerpts from an interview with Subhomoy Bhattacharjee:

#### **What are your thoughts on initial public offerings (IPOs) of insurance firms?**

We expect a growth of about 40 per cent in gross premium to Rs 3,600 crore this financial year. Yes, we are exploring an IPO in the medium term. Yet, I would say that insurance companies have to make underwriting profits to grow on a sustained basis. In the first instance, you might still get investors who will pick up your issue if you make net profits. But five years down the line when everyone shows the same sort of numbers they will become more choosy.

#### **What do you claim as your strengths?**

In property insurance, we are right at the top — in terms of coverage, of capacity, and spread. We are proud of our record in claims settlement, since we aim to get back the insured's cash flow as soon as possible — being too late does not help the insured at all. Our other strength is our countrywide distribution network. Others have pools where they are strong. Also, our 2,600-strong employee pool. We also aim to sharply raise the number of agents.

Talking of agents there has been lot of questions on how the industry instead guns for business mostly through motor dealers.

It is in everybody's interest to conform to the guidelines set by the GIC Council. These come into effect from November. I agree the issue of excess commission arose because companies were trying to build market share. That was sort of a way to grow. Motor as a product is the largest; we cannot wish it away.

Yes, channels (operating through dealers) are very good. But, as I said, the new guidelines have been brought in a platform that makes what was totally unregulated now totally regulated.

#### **Does motor issuance need to move out from the shops of the dealers?**

One way is to go direct and digital. It is already coming but will take time to evolve. With the guidelines, the options reduce themselves to handling the dealer partners as brokerage or as an agency depending on whether it is a bilateral or a multilateral partnership with the insurance companies. You must also recognise that within another 10 years the motor insurance business may not be recognisable as it exists today. With so much of electronics coming into vehicles, it is possible to examine if the insurance needs to be taken out on the driver or the software. If the software malfunctions, you cannot hold the driver responsible. So the business may evolve into part liability insurance and partly the standard driver insurance that we have now.

#### **So what are the emerging insurance sectors?**

You see, Indians by nature were never very security conscious. But gradually over time that is changing. One of the first areas where it took shape was in motor third party. Now it is expanding to the protection of property. I feel the scope of liability insurance will expand both at the retail level and of course for companies. The other new area is artificial intelligence and its implications for manufacturing. Today you have policies with loss of profit, yet tomorrow if there is a software malfunction, who is going to pay for the losses? The company using the robots has not manufactured those, it is someone else. So whose responsibility is it ultimately? These legal guidelines, too, have to emerge with case laws, etc. Companies may not have persons but robots to insure. Here the damage is not of bodily harm to the workers but that of financial loss, through loss of production. It will remain an insurable risk.

#### **What has been your experience of working with the government-mandated insurance covers?**

In the case of crop insurance (Pradhan Mantri Fasal Bima Yojana) we found that it takes time to build up underwriting data. The typical cycle is one good year, two average and two disaster years. Among the two crop cycles, rabi crop gives us more headache. North India often has severe cold or there are thunder storms during harvest. There have been years when loss ratio has gone up 250 per cent. With the data, it is easier to scout for reinsurance support. Crops are a major portfolio globally too, so large reinsurance companies are interested.

One of the challenges in this business is that it is annual. Since reinsurance, too, is available only on a yearly basis that is how the cycle operates. In the first year, we may be able to offer the cover cheap, but as losses mount the reinsurance support could become costly. And that makes it difficult to stick to the same price point with the state. So we do face challenges with some of them on pricing. Then again, many of them are balanced who offer pricing, which is rational and the sampling is fair, so we are comfortable with them.

#### **Source**

But on Pradhan Mantri Suraksha Bima Yojana, we do not participate, as we feel the premium offered is low. These schemes have brought in a lot of insurance awareness, though.

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#### ***Add-ons you must consider buying with home insurance - Financial Chronicle – 27th November 2017***

You can certainly buy a good home insurance policy at an affordable cost to get cover against natural disasters, which are beyond your control

Most of us work hard and cut corners to save money to buy a house. Yet, many do not think of insuring the house to protect it from both natural and man-made disasters. Almost every year, several parts of the country witness floods or other natural calamities in which many lives are lost and property worth crores of rupees destroyed.

While we can't control such disasters, we can certainly buy a good home insurance policy at an affordable cost to get cover against such possible disasters. There are home plans that will, in case of a disaster, not only pay the reconstruction cost but also foot the bill for destroyed household goods.

In fact, some policies also pay money for you to rent a house till your damaged home is repaired or reconstructed. So not only it's important to have a home insurance but also a thorough understanding of various insurance products available in the market.

Here are some add-ons that you should consider buying along with a regular home plan to enlarge the scope of coverage.

**Cover against floods & earthquakes:** It may seem surprising but it's true that only a few insurers allow cover against floods and earthquakes in a standard home insurance plan. Others want you to buy an add-on to get protected against natural disasters. If you live in an area where flooding is a recurrent problem, such as several parts of metro cities like Mumbai, Chennai and Delhi, then you need to buy a policy that gives you protection against such disasters. You can compare the options online and select the one that suits your requirements the best.

**Alternate accommodation:** The alternate accommodation add-on means your insurer will pay rent for the house you would need to shift to in case of damage to your home due to any natural calamity. For example, if your house is damaged in an earthquake, you can approach your insurer for repairs. If you have taken alternate accommodation add-on, the insurer will assess the extent of damage and time needed for repair.

Accordingly the insurer will not only arrange funds for repairs but also for an alternate house for that specified period. So this add-on lets you get your house repaired without the hassle of paying for alternate accommodation or taking obligation from your friends or relatives. With a provision for Rs 25,000 as monthly rent, this add-on will cost around Rs 200 per annum. Useful, isn't it?

**Gold & jewellery coverage:** Gold & jewellery have been an integral part of most economically sound families in India for ages. Being a precious asset it needs to be protected against theft or calamity. But while most content home insurance plans give cover for household goods, such as furniture and electronics, very few cover gold & jewellery and that too for a meagre sum assured. So, to get an adequate cover for your gold & jewellery, you should think of buying the gold and jewellery add-on with your standard home policy by paying Rs 5,000 extra per annum for a cover of Rs 5 lakh.

**'New for old' add-on:** It is another useful add-on available with comprehensive insurance and content insurance plans. What it means is that your insurer will replace damaged or lost items with new products, instead of reimbursing the depreciated value of affected items. But under this add-on, only items that are not more than 5 years old can be covered.

**Worldwide cover:** Worldwide coverage add-on is a blessing for those who travel frequently. It provides insurance protection against any damage to your belongings, such as a laptop, camera, jewellery, during a journey. A standard content home insurance policy gives protection to goods that are kept inside the insured house. But by paying Rs 800 per annum, you can get coverage for goods that you need to take out often during your journeys.

So there are various add-ons available in the market, which ensure insurance protection in different situations. Now, it is for you to choose the ones, which suit the best to your requirements.

Source

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## Reinsurance

### *India: Reinsurance Expert Committee recommends reinsurers be treated equally after GIC Re - Asia Insurance Review*

The Reinsurance Expert Committee (REC) appointed by the IRDAI has recommended that after GIC Re, insurers are to be permitted to obtain the best terms simultaneously from Indian reinsurers, foreign reinsurance branches (FRBs), Lloyds India and cross-border reinsurers (CBRs) that satisfy eligibility criteria.

In more detail, the REC, appointed in May to review the existing regulatory framework, has proposed that reinsurers be classified into two categories for offer of participation in the following order of preference:

a. GIC Re and then [simultaneously to other] Indian reinsurers, CBRs, if any, whose terms for a minimum line size (say 5% for Treaty and 10% for Facultative risks) established the best terms, FRBs, Lloyd's India and Indian insurers.

b. Reinsurers in Special Economic Zones, joint venture partners of Indian insurers, reinsurers and other CBRs satisfying the eligibility criteria (including overseas reinsurance entities of FRBs' parent group).

#### Waivers

The REC says that there is merit in the representation of life reinsurers seeking waiver from Order of Preference stipulations, given the consultative and long-term risk management relationship between the life insurer and a reinsurer. The Committee feels that aviation, life insurance, marine hull, large infrastructure projects petrochemical and refinery plants, large power plants, oil and energy, specialised / emerging / volatile risks with high loss potential as well as retrocessions, rely on the international reinsurance market for design of the covers, wordings, conditions, capacity, and support.

“Insurers/reinsurers require the freedom and flexibility to seek and obtain best terms and reinsurance support from reinsurers with high security ratings. The Committee recommends that stipulations of order of preference for Reinsurance cessions can be waived for these classes of business and for such other classes of business as may be permitted by the Authority from time to time,” said the report.

With a view to developing reinsurance capacity/market within India, the Committee recommends that the cessions to all CBRs taken together, by any insurer, shall not exceed a certain percentage as deemed appropriate by the IRDAI. This limit can be reviewed every year, it says.

The REC also says that it would be prudent to prescribe CBR Security rating of A minus or above for competitive quotation process and BBB or above rating for placements. The IRDAI could also consider raising the minimum-Security rating levels for participation to A minus.

#### Under existing regulations, the order of preference for cessions is:

- a) Indian re-insurer(s) having a minimum credit rating from any of the internationally renowned credit rating agencies for the previous three years; and thereafter, the branch office of a foreign reinsurer which shall maintain a minimum retention of 50% of the Indian reinsurance business (such branches are classified as Category 1);
- b) other Indian reinsurer(s) or the branch office of a foreign reinsurer which shall maintain a minimum retention of 30% of the Indian reinsurance business (such branches are classified as Category 2);
- c) the branch office of a foreign reinsurer set up in a Special Economic Zone;
- d) Indian insurers and overseas reinsurers.

Source

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#### IRDAI Circular

Source

Report of the Reinsurance Expert Committee 2017 is available on IRDAI website.

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#### Global News

##### *Asia: Insurers looking to region for M&As to grow – Asia Insurance Review*

Amid low growth and even lower interest rates in the US and European economies, insurers adopting a mergers and acquisitions (M&A) strategy to grow revenues and tap new technologies are looking overseas, mostly to Asia and in particular to Hong Kong, according to new research from Willis Towers Watson, a leading global advisory, broking and solutions company.

Drawing on input from 200 senior executives in the insurance industry, split equally across the Americas, Asia and EMEA regions, and produced in conjunction with Mergermarket, the report shows that while only 5% of respondents currently generate more than half of their profits outside their home region, 15% expect to do so three years from now.

#### Hong Kong

As insurers become more outward-looking and seek to generate a greater percentage of future profits from overseas, Hong Kong is where many insurance companies are turning to for new opportunities. This is largely

driven by mainland China. Of the 21 proposed takeovers of Hong Kong insurers during the past three years to July 2017, nine were led by mainland Chinese companies, according to Thomson Reuters data.

“Hong Kong’s emergence as a hub to capture a flow of savings out of mainland China comes against a backdrop of Beijing’s elevated scrutiny on capital outflows to strengthen the yuan,” said Kevin Angelini, Head of Strategy for the Insurance Consulting and Technology business in Asia Pacific at Willis Towers Watson. Mr Angelini added that interest from mainland China also makes Hong Kong attractive to other overseas buyers. “Not only are mainland Chinese companies acquiring insurers in Hong Kong. In recent years, mainland Chinese individuals are also increasingly buying insurance policies in Hong Kong to gain access to more product options, including the option of buying policies denominated in the US dollar or Hong Kong dollar, which provide a hedge against fluctuations in the yuan,” he said. “This has pushed up the total sales of insurance products in the city, thereby making the city an attractive target for many new investors.”

These features add further value to Hong Kong’s traditional appeal as a well-regulated free market with good profitability, mature insurance customers, abundant cash flow, robust solvency ability, strong management experience, and access to international capital markets. “All of these can help acquirers to integrate resources quicker and better,” said Mr Angelini.

#### **Non-insurers entering market, often with different goals**

Private equity business JD Capital in August 2015 agreed to spend HK\$10.7 billion (US\$1.37 billion) to buy the Hong Kong life insurance business Ageas, which was subsequently renamed to FTLife. In June 2016, mainland Chinese real estate company Fujian Thai Hot Investment agreed to pay HK\$10.6 billion to buy the life insurance operations of Dah Sing Financial Holdings.

“The expansion of the insurance business can offer a long-term and low-cost channel to gain access to capital so that buyers can reinvest the premiums to feed their other business — such as real estate — which could yield higher investment returns. That said, a future challenge will be effective Asset-Liability Management (ALM) of the insurance portfolio and potentially also Capital Management,” said Mr Angelini.

He added that while buyers’ traditional goal when making an acquisition is to acquire customers, the approach of mainland Chinese non-insurance buyers is the reverse. “They already have the customers, but they need the financial mechanism to serve them. Buying an existing insurance company will immediately provide the relevant licences, business infrastructure and qualified management staff.”

#### **Acquisitions by tech giants, a trend amid digitalisation**

In January 2017, Aviva agreed to sell two-thirds of its Hong Kong life business to Tencent and Hillhouse Capital in a deal designed to set up a new digital insurer. In August 2017, Jack Ma’s Alibaba-backed Yunfeng Financial bought the Asia unit of MassMutual for US\$1.7 billion, with ambitions to integrate robo-advisory technology and advanced data analytics into the insurance business.

In Hong Kong, the Insurance Authority (IA) welcomes such companies investing in the sector. In fact, the welcome is such that the IA launched its fast track for digital licences to expedite the process for such technology companies.

Source

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### ***China: Insurance industry grows by 20% in first 10 months - Asia Insurance Review***

Total premium income for China's insurance industry from January to October rose by 19.9% to CNY3.24 trillion (US\$491 billion) compared to the corresponding period last year, data from the country's insurance regulator show. The growth rate for the first 10 months was slower than for the corresponding period in 2016 when total premium income grew by 30.4% to CNY2.7 trillion.

For the period from January to October this year, premium income for property insurance firms rose by 14.37% to CNY856 billion, the CIRC says in a statement posted on its website. The life sector posted growth of 22.05% over the first 10 months with premiums reaching CNY2.38 trillion.

The insurance industry paid out total claims of CNY908.5 billion during the first 10 months of the year, 6.55% higher than in the corresponding period last year. Total assets of the insurance industry stood at CNY16.62 trillion at 31 October, up by 9.94% from the beginning of the year.

Source

### ***Saudi Arabia: Nat CAT cover to be included in motor comprehensive insurance policies – Asia Insurance Review***

The Saudi Arabian Monetary Authority (SAMA) is making it mandatory for insurance companies to include coverage against natural disasters for vehicles in their motor comprehensive insurance policies, especially against damage caused by floods, rain, floods and cold.

Mr Hesham Tashkandi, director general of the Insurance Control Department at SAMA, issued a circular in which he stressed that all insurance companies must modify their products to comply with the requirement for comprehensive insurance coverage to include natural disasters.

The new mandatory requirement is expected to be implemented next year, reported Al Madina.

#### **Vehicles hardest hit in Jeddah floods**

In a related context, advisers and experts in the insurance sector say that the claims made by customers as a result of the heavy rain that hit Jeddah a week ago may not exceed SAR200 million (US\$53.3 million).

An insurance advisor said that the expected compensation to be borne by insurance companies for damaged vehicles and property would be between SAR150-250 million, especially with the flooding of warehouses belonging to a local car dealer and the damage to stocks of new cars.

Flooding occurs almost every year in Jeddah, where residents have long criticised poor infrastructure.

Another expert in the insurance sector, Adnan Khoja, said that the total compensation from the floods will range from SAR100-200 million, of which at least half will go to vehicle owners.

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### ***Global: Takaful growing at 9% a year to exceed US\$52 bln – Asia Insurance Review***

The global takaful sector has grown at an annual rate of 9%, in line with growing international interest and is expected to reach US\$52.5 billion by 2020, according to a report released by the Dubai Centre for Islamic Banking and Finance (DCIBF).

The report entitled “Takaful: Sustainability and Growth 2015 to 2025”, is the result of close collaboration between the DCIBF and the Dubai Islamic Economy Development Centre (DIEDC) which forms part of broader cooperative efforts to support Dubai’s transformation into the capital of the global Islamic economy.

The report also notes that the takaful sector has significantly expanded in Near- and Southeast Asia, Levant-North Africa, and the GCC regions. Between 2003 and 2015, 202 new takaful entities were established, with 51% of the 57 Organisation of Islamic Cooperation member countries now hosting a takaful institution.

The global takaful sector’s manpower rose by 55% from 63,358 in 2011 to 98,400 in 2015, with experts forecasting 40,000 new jobs to be generated in the next 10 years.

The report further advises takaful operators to re-assess their operating costs, adopt cost-effective new technologies, enhance a risk-awareness culture, and sharpen sales and marketing skills to boost their competitiveness.

Source

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